E-marketing is rapidly growing in significance and is having a direct impact upon traditional marketing strategy and operations. It requires planning and innovation to make it work, implying organisational commitment and effective management, supported by appropriate technology, process and structure.

Fully updated to reflect the latest developments in e-marketing, *Marketing the eBusiness, Second Edition* unpicks the challenges of e-marketing for many types of business. It uses topical case studies and accompanying web material to provide an up-to-date study of effective marketing strategies. This updated edition features coverage of such emerging topics as:

- Mobile marketing
- Social networking and blogging
- E-segmentation
- Customer relationship marketing online

Providing a new approach to the subject matter, this book analyses the benefits of e-marketing as a tool for improving efficiency and effectiveness rather than promising business revolution. Written in a student-friendly style and fully enhanced with such pedagogical features as topic maps, boxed examples and discussion questions, the book is ideal for use by students.
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*Marketing the e-Business, Second Edition*
Lisa Harris and Charles Dennis

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*e-Business Fundamentals*
Edited by Paul Jackson

*e-Retailing*
Charles Dennis, Bill Merrilees and Tino French

Forthcoming:
*e-Governance: Managing or Governing?*
Edited by Leslie Budd and Lisa Harris
Marketing the e-Business

Second Edition

By

Lisa Harris and Charles Dennis
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Introduction

Aim

The aim of this book is to demonstrate to both marketing students and practitioners how marketing efficiency and effectiveness can be improved through the use of the Internet.

Rationale

E-marketing is rapidly growing in significance and is having a direct impact upon traditional marketing strategy and operations. It requires planning and innovation to make it work, implying organisational commitment and effective management, supported by technology, process and structure.

Relatively few companies (with the exception of the ‘pure-play’ or ‘dotcom’ brigade) are able to start with a ‘clean sheet of paper’ so far as e-business is concerned. For most companies, setting up online operations requires significant cultural and structural change. It also usually means running both ‘traditional’ and ‘new’ business alongside each other, and developing an appropriate degree of integration between them to create useful synergies. Although a number of lessons can be
learned from the bursting of the dotcom bubble (and these are considered where relevant), the main focus of this text is upon the challenges faced by ‘bricks and mortar’ organizations as they introduce and develop their online operations alongside their established business activities and attempt to keep up with the latest developments in technology.

Lessons from History and Cautionary Tales

Much has been written about the ‘revolutionary’ business implications of the Internet, to the extent that some authors have argued that a new business ‘paradigm’ has emerged, as a result of the scope of the potential applications of Internet technology. However, Palmer (2001) noted that the difficulties experienced by dotcom businesses once the initial euphoria wore off indicated that there has actually been little change in the underlying beliefs and values of the business world. E-businesses therefore operate within the same environment as conventional businesses and hence are subject to the same rules. Similarly, Dutta and Biren (2001) proposed that the key role of Internet technology was not to revolutionise business practices but instead to seek efficiency improvements through ‘e-enabling’ the current activities of the firm in a ‘low risk’ approach to innovation that is consistent with existing organisational culture. In addition, Phillips (2001) calculated that the application of technology to improve the efficiency of current operations may represent as much as 72 percent of all IT developments.

The information ‘revolution’ prompted by the Internet is often discussed as though it is without precedent. It can be tempting to conclude that the rate of innovation and technological change puts extraordinary and unique pressure on companies as they struggle with the demands of a ‘24/7’ economy. Kanter (2001) provided a welcome dose of reality among the hordes of Internet evangelists:

Many discussions of the New Economy take place in an historical vacuum. Mention the Internet, and intelligent people sometimes act as if they have had a portion of their brain removed—the memory.... As we search for the new and different things that occur in the wake of revolu-
tionary communications technology, it is also important to recall what can be learned from previous waves of innovation. (Kanter: 3–4)

She went on to highlight the key theme of her book, namely that in our enthusiasm to keep up with the ways in which the world is changing, we often fail to notice just how much remains the same:

History demonstrates that new channels tend to coexist with old ones and sometimes even join them. Yes, the technology is revolutionary, network economics are different, and all the wheels must turn a lot faster, but the problems of leadership, organization and change are similar to those we have experienced for decades. (ibid.: 5)

Hanson drew some uncanny parallels between the Internet and the growth of radio in the 1920s. He demonstrated that change is always with us, however radically we might think that the Internet is altering marketing practices at the moment. His description of radio developments highlighted that they made a huge impact on the society of the 1920s, reminding us that radio ‘so captured the public’s imagination that commentators claimed it would revolutionise culture, education and commerce’ (2000: 2). Similarly, David (1991) compared the growth of information technology to the early days of electricity, which was also labelled ‘revolutionary’ when first made available. He showed how it took several decades for people to learn how to make the most of the new technology and overcome their preference for ‘traditional’ and familiar alternatives. The same argument has been used persuasively by Simon (1987) in his study of the steam engine. Jardine (1999) looked further back into history, and claimed that the emergence of the printed book in the fifteenth century was equally radical in its impact on contemporary life. Interestingly, however, she noted that it took some fifty years for the printing business to become profitable, with a number of prominent early market entrants going out of business along the way. If a common pattern from these historical examples is not yet obvious, the following quotation from Charles Fraser (written in 1880, reproduced in The Economist in June 2000) should clinch matters: ‘An agent is at hand to bring everything into harmonious co-operation, triumphing over space and time, to subdue prejudice and unite every part of our land in rapid and friendly communication…and that great motive agent is steam’.
It is often suggested that e-Business is just about technological change, but there are greater difficulties in implementing the intellectual, cultural and structural shifts necessary to succeed in a much more interactive business environment. Firms set up specifically to operate through the Internet (the so-called dotcoms) were ideally placed to recruit suitable staff and deal with customers in the most effective way, although many dotcoms were lost in the crash of 2001. Established firms, however, may have a whole history of embedded working practices and customer relationships that require significant change if e-business is to be implemented successfully. Some of the qualities required for success are a lack of ‘baggage’ (in the shape of established business processes), a deep understanding of how technology can serve business strategies, and a flair for implementing these strategies.

It is easy to get carried away about the potential of the Internet, but several problems remain:

- The sheer volume of traffic can cause delays and lockouts.
- Security breaches by hackers and viruses hit the headlines regularly.
- A large proportion of the population still do not have Internet access.
- High-speed access is necessary to support the latest multimedia features.

Throughout the book we look at the difficulties associated with Internet marketing and suggest how potential problems might be overcome. Even when an Internet initiative is organised, with appropriate leadership, its multidisciplinary demands test an organisation’s communication channels. This is particularly true in bureaucratic companies that are still organised around traditional business functions. Internet initiatives require integration between strategic, marketing, technical, graphic design, communications, publishing and operations capabilities. The organisational challenge of assembling, managing and empowering such teams is immense.

**Structure of the Book**

This book adopts a methodical approach to the development, implementation and control of Internet marketing strategies. The relevance
of the chapter’s subject matter to that of the book as a whole, a summary of the key lessons that will be learned, and an ordered list of sub-topics to be covered are set out at the start of each chapter. Feedback is provided at the end of each chapter on a number of self-assessed questions and activities presented in the text, together with a list of specific web-based sources and book references.

Chapter 1  History, Definitions and Frameworks

- Discusses how the Internet has developed over the past 30 years.
- Explains the meaning of basic e-marketing related terminology.
- Explains how the basic infrastructure of the Internet is constructed and the relationship between the component parts.
- Discusses the marketing implications of macro-issues such as e-governance policy and recent developments such as Web 2.0.

Chapter 2  The e-Business Environment

- Discusses and evaluates the key issues prevailing in the current e-business environment, specifically with regard to:
  - The inter-relationship between legal and ethical considerations
  - Intellectual property rights
  - The ‘digital divide’
  - Data protection
  - Online payment systems.

Chapter 3  e-Marketing Research

- Explains the basic principles of marketing research.
- Discusses the increasingly central role played by research in effective marketing.
- Discusses how to choose the most appropriate method to address a particular research task.
INTRODUCTION

- Explains how the Internet can be applied to add value to the research process.
- Discusses the legal and ethical issues raised by online research in terms of data protection and privacy.

Chapter 4  e-Marketing Strategies

- Discusses the importance of creating the ‘right mix of bricks and clicks’.
- Explains how e-marketing strategy can add value to a business.
- Evaluates the key models of online marketing strategy that have emerged to date.

Chapter 5  e-Consumer Behaviour

- Why consumers e-shop (or do not e-shop).
- How consumers achieve satisfaction (or not) from e-shopping.
- How consumer satisfaction from e-retailing compares with satisfaction from in store shopping.
- What factors are inhibiting the growth of e-shopping?

Chapter 6  Customer Relationship Marketing

- Discusses the relationship between internal marketing and customer relationship marketing.
- Explains the critical role of information in the implementation of effective relationship marketing strategies.
- Describes how the Internet permits relevant marketing data to be acquired, stored, analysed and managed.
- Explains how the information derived from this data can be applied in order to build and sustain customer relationships.

Chapter 7  Multi-Channel Marketing

- Discusses the characteristics of the various online channels now available to marketers
• Evaluates the internal challenges posed by multi-channel marketing strategies and explains how such issues can be addressed.
• Discusses the implications for service quality of automating channel communications.

Chapter 8 Online Branding

• Evaluates the broad scope of branding decisions.
• Discusses the range of online branding strategies available.
• Compares and contrasts issues of ‘global’ versus ‘local’ branding.
• Discusses the emerging challenges inherent in multi-channel branding.

Chapter 9 Online Marketing Communications

• Discusses the purpose of marketing communications.
• Explains the relationship between online consumer behaviour and effective marketing communications.
• Describes the range of tools available for online communications.
• Explains the importance of effective integration of online and offline communications.

Chapter 10 e-Retailing: From ‘Clicks’ To ‘Clicks and Bricks’?

• What e-retail is, advantages and disadvantages for retailers.
• The success factors for e-retail (and the ‘no-nos’).
• The e-retailing strategic options for retailers.
• The growing importance of multi-channel retailing.
• The tools and techniques of e-retailing—the e-retail mix.

Chapter 11 e-Marketing Planning

• Critically evaluates the effectiveness of the planning cycle for e-marketing operations.
INTRODUCTION

- Demonstrates how an online marketing plan is constructed by:
  - Carrying out a marketing audit
  - Setting SMART objectives
  - Segmentation and choice of strategy
  - Implementing the chosen strategy through the marketing mix
  - Applying suitable metrics to evaluate success
- Explains the implications of e-marketing for organisational structures and internal business processes.

Chapter 12 The Future of e-Marketing

- Maximising the opportunities of Web 2.0:
  - RSS
  - Blogs
  - Podcasts
  - Online networking
- Where are we now? Successes and failures
- What does the future hold?
Introduction

In this scene-setting chapter we will review the history of the Internet and briefly describe the physical makeup and protocols which control it. You will then be introduced to some recent developments that will be covered in more detail later in the book. We will also examine some basic e-marketing terminology and discuss the key models of contemporary online business activity.

Topics Covered in this Chapter

- A brief history of the Internet
- Internet components, protocols and security
- Overview of recent developments
  - Governance
  - Access
  - Web 2.0
- Key e-marketing definitions
- Boo.com case study.

Learning Objectives

By the end of the chapter you should be able to:

- Discuss how the Internet has developed over the past 30 years.
• Explain the meaning of basic e-marketing related terminology.
• Explain how the basic infrastructure of the Internet is constructed and the relationship between the component parts.
• Discuss the marketing implications of macro issues such as e-governance policy and recent developments such as Web 2.0.

Recommended Reading


A Brief History of the Internet

In 1969 the Internet was just a demonstration project linking up four university campuses in the US but by the end of 2004 there were in excess of 934 million users across the world, according to the Computer Industry Almanac. This figure is predicted to grow to 1.35 billion users by 2008. The latest statistics of Internet growth can be found at the Clickz Network (see www.clickz.com). In addition to these fixed hosts that link individual desktop computers to the Internet, there will be mobile hosts linking up mobile phones using wireless technology.

The Internet was based on an original concept developed by the Rand Corporation in the early 1960s. The objective of the research was to provide the US with a communications network that would survive in the event of a nuclear conflagration. The project was codified into a set of protocols (eventually called TCP/IP) by Vinton Cerf during the mid-1970s and deployed across all the inter-linked networks in 1983. Growth between 1980 and 1987 shows numbers of hosts in the tens of thousands.

After 1987 when the US funding body NSF (National Science Foundation) started to work with the Internet, growth leapt into the hundreds of thousands. Many non-US academic sites and scientific and research bodies linked up at this point. It was inherent in the
technology that new nodes could easily be added to the Internet, and this has permitted the exponential growth of users. Secondly, all messages were to be treated equally—there was no inherent prioritisation of messages—so no matter which computer was being used, all messages have equal rights regardless of whether the user is an employee of a large corporation or an individual accessing the Internet from home.

No single entity owns the Internet or is wholly responsible for its functioning. It is a decentralised network whose operation is influenced by a number of bodies, not least large commercial interests such as Cisco and Microsoft which help drive ICT standards and innovation in the marketplace itself. The ethos underpinning the Internet at this point was one of not-for-profit, and the lack of packet prioritisation underpinned an essentially democratic spirit amongst its user communities. It was only with the emergence of the World Wide Web (WWW) that individuals with little knowledge of such protocols could participate in this electronic medium. By use of hypertext (embedded links within electronic documents) and a pointing device such as a mouse, navigation amongst a series of web pages was made possible for novice users. The development of the web browser Mosaic in 1993 meant that rapid colonisation of the network by commercial interests began. It is from this point that online trading (or e-commerce) really took off.

Earlier forms of e-commerce include Electronic Data Interchange (EDI) which is the exchange of information and orders by trading partners using technically-defined templates. EDI originated in 1969 when a US rail freight company sought to optimise its freight shipments by using cabling alongside its tracks to link up with customers. The succeeding decades saw many large corporations taking up EDI (based on value-added networks operated by private sector organisations such as IBM) to the point where by 1995 there were in excess of 30,000 EDI networks in Europe alone.

As opposed to the Internet which uses protocols that are open and non-proprietary, these EDI systems are closed or proprietary systems which are open only to invited participants. These technical problems and restricted functionality contrived to ensure that EDI as a whole never achieved widespread credibility. The lack of a common standard
for document formats meant that companies tended to get locked in to one supplier. It has taken the growth of the Internet with its universal standard to project electronic trading into mainstream commercial credibility, by allowing businesses to connect throughout the value chain, exchange real-time information and streamline business processes both internally and externally.

For more detail on the development of the Internet, Hobbes’ Internet Timeline identifies a chronology of events and the individuals behind them at www.zakon.org/robert/internet/timeline

Internet Components, Protocols and Security

The Internet as we know it to-day consists of small area networks belonging to individual organisations (Local Area Networks or LANs), networks spread across large geographic areas (Wide Area Networks or WANs) and individual computers. To connect to the Internet, a computer or network uses the TCP/IP protocol. Internet Protocols are rules that govern the transfer of data within computer networks.

The Internet itself usually utilises the UNIX operating system. Within the Internet there are more networks. These include:

- Backbone networks (e.g. the NTSNET system)
- Commercial networks (businesses with direct links to the Internet)
- Service providers who offer smaller firms with an Internet connection
- Non-commercial networks belonging to educational/research organisations
- Gateway networks provide their subscribers with access to the Internet.

Most Internet sites have an address or ‘domain name’ that performs the role of being the telephone number for individuals wishing to reach them. Transfer of information uses FTP (File Transfer Protocol). These files can contain images, video clips, sound recording, text or graphics. In short, the Internet is capable of transmitting anything that can be put in digital form. This means the cost of information
For a relatively small outlay on a computer, a suitable telecommunications link (e.g. via a phone line and modem), and an online account provided by an Internet Service Provider, individuals located across the globe can access this massive network.

For the small business user, the physical components of the Internet are likely to look like this:

- Browser on computer
- Modem on computer
- Telephone line (dial-up or broadband) into telephone company (e.g. BT) network
- Internet account with Internet Service Provider (ISP).

Larger firms might look more like this:

- Browser on computer
- Computer connected to corporate server(s)
- Corporate server connected to corporate router
- Telecoms link from corporate router to telephone company
- High speed Internet account with ISP.

Benyon-Davies (2004) notes that customer concern over security breaches has been the most significant barrier to the growth of e-business. According to www.nielsen-netratings.com (November 2006) almost half of Britons online (45 percent) still have concerns about the handling of their credit card and personal information when shopping online. People over 55 are the most likely to have these concerns, 16–24 year olds the least likely. However, the latest online trading predictions from Nielsen/Netratings indicate that such fears are receding, with people dedicating 55 percent of their total Christmas gift spending to online sources—an average of £237 online and £197 on the high street per person. Despite this increased confidence, no credible business can afford to ignore Internet security issues. In summary:

- From a corporate perspective, Internet security is a subset of information security.
- The Internet was originally designed as an open network to guarantee the ability to share information.
• As it moved from the military and academic arenas into the corporate world where information and knowledge is an asset, the need to ‘protect’ the Internet became a key feature of global Internet access.

The following points should be borne in mind in order to help prevent security breaches:

• A prominently displayed security policy to ensure user awareness
• Restricted access to certain types of content or message attachments
• Secure computer rooms
• Password controlled access to the system
• Encryption of data in sensitive areas; for example, where credit card details are held
• Firewalls to protect the system from unauthorised access
• Specialist security detection software (e.g. virus software)
• Security alerts and reports
• Engage a reputable firm to perform attack and penetration tests.

Overview of Recent Developments

Internet Access

The UK government, which is committed to putting all government services online, has so far spent around £8bn on obliging its departments and the wider public sector to comply with its targets. It was originally estimated that 24-hour e-access to government services would save £3.5 billion per year, and a target date of end 2005 was set to ‘e-enable’ all public services. A special government department, the ‘Office of the e-Envoy’ employing 400 people was created to deliver on this promise. The 2005 target was met in terms of creating online channels into government, but the underlying government bureaucracy remains largely unchanged. According to Colin Muid, who ran the early ‘skunkworks’ programme examining how government could be changed through technology: ‘Back in 1996 we were saying “let’s
clear up this mess”. Now, we’ve got a digital interface to that mess’ (Cross, 2006).

There is certainly little evidence as yet that all customers want or need online transactions, let alone any sign of payback from the government’s investment (Vincent 2004). E-government spending to date will be dwarfed in the next few years by projects such as the NHS National Programme for IT and the integration of Customs and Excise and Inland Revenue information systems. Historically, the success rate for implementation of large-scale computer projects is reported to be around 17 percent. The dotcom crash is another recent example of the consequences of ‘blind faith’ in new technology without consideration of the social implications, and it would appear that the UK government is now exercising some cautious optimism with the statement that ‘some of the newer technologies today will be mainstream by 2011 and the time will be right to roll out their widespread exploitation’ (Transformational Government Enabled by Technology, 2006: 19).

Diagram 1.1 shows how the profile of Internet access in the UK has changed since the mid-1990s. The rate of growth in Internet use has recently slowed significantly and is starting to plateau at around 60 percent of the population. A report from the Office of National Statistics (Oxford Internet Institute 2005) highlighted that of the 32 percent of UK adults who had still never used the Internet, 43 percent had no interest in doing so and 33 percent felt that they lacked the knowledge or the confidence to do so. These findings suggested the need for new features to attract users to existing channels, investment in new channels such as digital television and mobile, and a government policy focus on access incentives and training if online channels were to become truly mainstream.

Diagram 1.2 illustrates the take up of a range of technologies in terms of the extent of their penetration into mainstream usage. It highlights significant potential for growth in technologies such as VOIP and 3G mobile. Business demands on the Internet are for increasing speed and greater bandwidth. Recent improvement in the availability of broadband has helped to drive e-business by offering rapid transfer rates to open up multimedia delivery to small and medium-sized firms (SMEs) and individuals.
We will examine these issues further in Chapter 7. Currently more than one billion people around the world have Internet access but the distribution across countries is anything but even. Why does the digital economy appear to be flourishing more

Diagram 1.1 Internet access mechanisms. http://www.ipsos-mori.com/technology

Diagram 1.2 Adoption curve for communications services and devices, Q1 2006.

Source: Ofcom
Note: Pentetration of DAB radio, 3G mobile and VoIP are based on individuals; other technologies are based on households
in some countries than others? The obvious answers concerning the health of the economy and the sophistication of the telephone infrastructure do not tell the whole story. For example, in France, one of the wealthiest economies in the world, only 39 percent of the population can be classified as ‘active’ Internet users, compared with 45 percent in the UK. Culture may provide one answer—the accepted language of the Web is English, which is less than popular in France. Scandinavian countries are known for their language skills, and active Internet penetration in Sweden is 55 percent. In Asia, the sheer diversity of languages and cultures has slowed the spread of the Internet. It may cross national borders with ease, but linguistic barriers are proving harder to negotiate. For this reason, Latin America is predicted to be a major online force in the years to come, because only two languages separate the entire continent. It is also evident that countries respecting individualism and entrepreneurship are more likely to embrace e-commerce. In some Middle East countries, even public access to the Internet is difficult, with systems heavily policed by the government.

However, the most important ingredient for increasing Internet penetration is a modern telephone system. The impact of mobile phones is also likely to be pivotal in the next generation of web developments. Wireless transmission has brought speedy communications to countries which were too poor to build traditional telephone networks. Uruguay for example, is not saddled with crumbling analogue cabling, and it now has one of the most advanced digital networks in the world.

Activity 1.1

Examine the resources of ClickZ (now available at www.clickz.com/stats) which also give details of the level of Internet access in a number of different countries. This picture is incomplete without an understanding of the different demographics that apply within each country (age, sex, income, geographical region). See www.mori.com/technology/techtracker.shtml for UK demographic data. What does this add to your understanding of UK Internet users?
Web 2.0 is not an actual technology but instead it describes a sea change in how we use the Internet. It facilitates interaction, social networks, community-based ranking systems and a rich user experience through emerging web technologies such as Really Simple Syndication (RSS). It also offers users open data formats that are cheap, shareable and easily editable. According to Tim O’Reilly, organiser of the first Web 2.0 Conference, Web 2.0 is ‘an attitude not a technology’, suggesting that it reflects a cultural change in the Web’s development. But how can marketers maximise the opportunities inherent in these developments for the benefit of their brands, particularly when seeking interaction with experienced web users who resent intrusive and repetitive advertising? These are key themes that we will be addressing throughout the book, particularly in Chapters 9 and 12.

Some early examples of successful Web 2.0 sites are Jobster (www.Jobster.com) which uses social networking to fill employment positions and American Express (www.amex.com) which uses Web 2.0 technology throughout to improve the user experience.

Key e-Marketing Definitions

This section introduces you to some of the key Internet terminology and new business frameworks that you will encounter in this book.

*Intranets*

An intranet can be defined as:

A network within a single company which enables access to company information using the familiar tools of the Internet such as web browsers and e-mail. Only staff within a company can access the intranet, which will be password protected. (Chaffey 2004: 26)

Intranets are becoming increasingly popular within organisations as a communication tool to collect and disseminate information. Firewalls (special security software applications) are necessary to prevent access to confidential information, such as employee records, which
can then be accessed by password only. Like the Internet itself, an intranet can work all over the globe for a company that has offices based in several countries, meaning that it is not constrained by geography.

The main benefits of an intranet to the organisation are improved competitiveness through operational efficiency and productivity. An Intranet can also create a culture within the firm that is conducive to information sharing and collaboration.

The advantages of intranets can be summarised as follows:

- Inexpensive to implement (an intranet can be established on a company’s existing network with little training needed)
- Easy to use, just point and click (this is because it works on the same technology as a web page—thus employees already know how to navigate around sites)
- Saves time and money by providing better information faster (information which has been previously locked away in cupboards or in the heads of key staff is now accessible to all at the click of a mouse)
- Based on open standards (the key to the intranet is freedom of information)
- Scaleable and flexible (an intranet can be managed and changed instantly)
- Connects across disparate platforms (an intranet can work for a business which has various regional offices within or outside a country)
- Puts users in control of their data (an intranet can allow and enable users to update their data)
- Improved decision making due to the fact that employees now have access to far more information at their fingertips and so can make more informed and thus better decisions
- Empowered users (if they are allowed to by management, users can edit and control their data and thus begin to become empowered)
- Builds a culture of sharing and collaboration (this is created through the intranet’s ability to enable documents to be shared and online collaboration of projects to happen)
Facilitates organisational learning (developed through the culture that the intranet creates and achieved via the data that the intranet provides for everybody to see)

- Breaks down bureaucracy (mainly achieved through the reduction in paper required, but also by the empowering of users)
- Improved quality of life at work (an intranet creates this not only through the modified culture, but by empowering the users and creating a sense of ownership for them)
- Improved productivity (this is the sum of both the tangible and intangible benefits described).

However, problems can also occur with the use of intranets:

- They have to be continually updated to be credible, which is a resource-intensive job.
- Intranets which merely mimic existing inefficient processes will not add much value.
- Poor design can mean that information is hard to find, and the resource will be under-utilised.
- If there is no means of control over Intranet content, chaos can result through over-use.
- Responsibilities for development and maintenance must be clearly understood.

**Extranets**

‘An extranet is formed by extending the intranet beyond a company to customers, suppliers, collaborators or even competitors. This is again password-protected to prevent access by general Internet users’ (Chaffey 2004: 26).

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**Activity 1.2**

Jakob Nielsen specialises in usability, particularly web usability. Take a look at his website www.useit.com. What rules regarding intranet design can you find?
Extranets are a rapidly developing area and significant cost savings can be generated by companies that are linked electronically through extranets along the supply chain. They also offer the opportunity to cut out intermediaries in some cases, (disintermediation) while introducing new types of intermediary (reintermediation) in others. Kodak (www.kodak.com) has spent considerable resources on developing an extranet. When first set up in 1999, the site had links to about 25 external organisations. Once set up, they were adding sites at the rate of two per week. The extranet is primarily used for information exchange with dealers, contractors, joint-venture partners and key suppliers.

*e-Commerce or e-Business?*

There are many definitions of e-commerce. The narrowest definitions refer to it simply as the buying and selling of goods online, though Zwass defines e-commerce more broadly:

> the sharing of business information, maintaining business relationships, and conducting business transactions by means of telecommunications networks. (Zwass 1998: 157)

Chaffey treats e-commerce as a subset of e-business because the former does not include intra-business functions such as the processing of a purchase order. He quotes the following definition of e-business:

> When a business has fully integrated information and communication technologies (ICTs) into its operations, potentially redesigning its business processes around ICT or completely reinventing its business model....e-business, is understood to be the integration of all
these activities with the internal processes of a business through ICT.
(Chaffey 2006: 8)

In its broadest form therefore, e-commerce can be regarded as syn-
onymous with IBM’s expression ‘e-business’ which is a holistic concept
covering the full range of business functions and structures effected
by the Internet, and this is the approach taken here. Agonising over
definitions is probably a waste of effort as these terms are likely to be
transitory as the Internet becomes an integral part of business activity.
In fact, they can be likened to early descriptions of the motor car as a
‘horseless carriage’.

The principal driver for the take up of e-commerce is econom-
ics. For example, the cost of processing a financial transaction online
can be as little as 1 percent of doing the same at a bank branch using
traditional paper methods. So once fixed costs such as equipment and
telecommunications lines are covered, the marginal cost of servicing
online transactions can be very low.

Fischer (1999) described the scope of e-commerce revenue under
headings that can be summarised as the ‘5Cs’:

- **Connection**—AOL, for example (www.aol.com), as an Inter-
et Service Provider (ISP) obtains its revenues from connect-
ing customers to the Internet.
- **Commercials**—Some companies obtain revenue from display-
ing advertisements for other companies. Key sites such as
Yahoo! with millions of visitors can charge high fees. Smaller,
more specialist websites can attract advertisers with relevant
products or services to offer; for example, an estate agent’s
website might carry advertisements for removal companies or
solicitors.
- **Commerce**—Goods or services are sold directly to customers
online.
- **Content**—Some sites can charge for content that can be
accessed from the site. For example a market research firm
may offer research reports for sale.
- **Community**—Specialist online community sites may be
able to charge a membership fee for access and discussion
participation.
Business to Consumer (B2C) e-commerce refers to the selling of goods and/or services directly to consumers by businesses. The classic example is Amazon (www.amazon.com) which retails in excess of 1.5 million book titles online and has extended its sales into other products including music CDs, videos, and games.

Business to Business (B2B) e-commerce refers to the selling of goods and/or services by one company to another as part of their supply chain (see, for example, www.marshalls.com).

Consumer to Consumer (C2C) refers to the selling of goods and/or services between individuals; see, for example, the auction house eBay (www.ebay.com).

Consumer to Business (C2B) refers to consumers generating trade with businesses; for example, www.letsbuyit.com allows consumers to come together and aggregate purchasing power to command discounts normally reserved for large organisations.

Activity 1.4

New descriptors like these are appearing on a regular basis, can you think of any more?

To give you a flavour of the scope of e-business, it is worth introducing the dominant models of e-business strategy in the marketplace today (Lumpkin and Dess 2004). We will be covering these models in more detail in Chapter 4:

- Commission-based businesses provide services for a fee; for example, www.eBay.com.
- Advertising-based businesses provide content and charge fees to advertisers wishing to target the viewers of the content; for example, www.yahoo.com.
- Markup-based businesses acquire products, mark up the price and resell at a profit; for example, www.amazon.co.uk.
- Production-based businesses convert raw materials into specific products, often customised by the end user; for example, www.dell.com.
• Referral-based businesses direct customers to another company for a fee; for example, www.yesmail.com which generates leads through e-mail marketing.
• Subscription-based businesses charge a fee to viewers for providing content; for example, www.ft.com.
• Fee-for-service based businesses are a ‘pay as you go’ system; for example, www.eproject.com provides virtual workspaces to allow online collaboration.

Case Study—Amazon

Amazon.com is often regarded as a template for successful e-business. Amazon's success is based on its disintermediation of the supply chain by combining the role of wholesalers and retailers, acting as a single-link online intermediary between publishers and individual consumers. The web-based business model offers easy purchasing, a huge selection and fast delivery. The cost savings that Amazon's model achieves also allows it to sustain a price advantage over many traditional booksellers. Amazon is in fact not so much a force of disintermediation, as a cybermediary merchant fulfilling informational, transactional and logistical operations. Part of the reason for Amazon's success is because it has been able to establish a trust role in the marketplace by creating a strong brand name. Although customisation of its products is at best highly limited, its software enables it to achieve a higher degree of personalisation of its service. For example, on re-entering the website, returning customers are met with a personal greeting and suggested purchase offerings. Amazon also facilitates some customer-to-customer (C2C) interaction. This is not direct C2C interaction, but takes the form of customer reviews of books. Customers are invited to review a book or CD, and these reviews are published alongside the price and ordering information for each prod-

Activity 1.5

Amazon is not the only company to encourage C2C interaction of this kind. What other examples can you find?
uct. In this way, Amazon uses its customers to spread ‘word of mouth’ recommendations about its products.

Case Study: The Rise and Fall of Boo.com

Between 1998 and 2000 many traditional UK and European financial institutions began a surge of investment into new high technology business start-ups. Investment euphoria could be largely attributed to the commercial possibilities of the Internet. The Internet was not only regarded as a new channel for commerce but as an entirely new era in the retail industry. A huge rush of B2C dotcoms then ensued, supported by a pack of hungry venture capitalists determined to make millions from the ‘new economy’. Unfortunately, misconstruing online ventures as a replacement for more traditional business has meant that many dotcoms tripped at the first hurdle and millions have been wasted.

Perhaps the most hyped of all the failures is that of Boo.com. This infamous company finally managed to launch after five failed attempts, squandered £90 million in investment capital and then went into receivership after only six months of trading. Boo was positioned as a leading site in fashion selling premium designer sports wear collections through the concept of ‘geek chic’. The site was vastly over-ambitious, it operated out of a number of countries and contained ground-breaking innovations such as a virtual hostess, 3-D imaging and a virtual magazine called Boom.

What Went Wrong?

To be objective in this analysis we must also consider the business environment at the time of Boo. The whole of the UK was buzzing with talk of the fantastic opportunities of the new economy. As a result, the first valuations for dotcom start-ups were ridiculous as business credibility was measured through site traffic, click-throughs and page views rather than purchases and profit. Boo’s biggest mistake was to misconstrue the new economy as a ‘get rich quick’ scheme. This attitude meant that valuable knowledge and experience accrued in traditional bricks and mortar retail was snubbed.
Boo’s founders Ernst Malmsten (artist and poet) and Kajsa Leander (former model) had little business experience but were very inspirational characters. Before Boo they had founded a pioneering online bookstore in Sweden called Bokus. A good concept, however, is not enough in itself. Although charisma is an essential part of entrepreneurial management style, Malmsten and Leander lacked a basic understanding of business principles. They began to consider product diversification at a very early stage: ‘We had invested millions in building a global retailing platform, we had established a powerful brand name, so why stop at clothes?’ (Malmsten et al. 2001).

Once Malmsten and Leander had raised enough capital to begin making strategic partnerships with headhunters, tax consultants and technology providers, they started a heavy PR strategy. Building a brand before a business platform is in place is risky, and Boo had over 230,000 registrations before the site was launched. As a result, they were unable to test their platform properly and had to invest over a million pounds just to ensure the site did not collapse due to high density of traffic. The international aspect of the site’s growth was also problematic, although many of the issues involved could have been resolved with careful planning. For example, Boo discovered only through experience that Portugal needed every delivery package hand stamped with serial numbers and in Canada all returns were taxed.

Boo’s culture was centred on the concept of youth, exuberance and creativity. The founders insisted that Boo was a lifestyle and not just a company. The company encouraged extravagant alcohol-fuelled nights out at top nightclubs and celebrity parties. Many of the staff were young and inexperienced yet were expected to perform well with little guidance. For example, the founders hired an ex-club DJ to coordinate the opening of their new Paris operations. It would seem a ludicrous decision to employ someone with no management experience to open and coordinate overseas operations, just because their personality complemented the brand image.

If they had received proper scrutiny from their financial advisors and prospective investors, Boo’s founders would have been forced to be more realistic and substantiate their amateurish business plan with suitable research, costings, checks and balances. Any business start-up needs a strong plan complete with a business and marketing
strategy, objectives, financial co-ordination and resource allocation. A full environmental, competitive and customer analysis is an essential component of such a plan.

Boo managed to spend $30 million even before the site launched five months late in November 2000. Company finance paid for the founders’ executive apartments, first class travel, expensive business trips and hotels, holidays, and living expenses. At this point it was realised that ‘sales would be less than 10% of the promised target’ (Malmsten et al. 2001). This revelation meant that Boo needed another $20 million to enable it to continue trading until February 2001. It was only after investors would not release more capital in March that Boo management started to discuss spending cuts. Despite the fact that the company managed to save $27 million in cut-backs and that their weekly revenue was higher than that of Amazon, they failed to secure further funding and Boo went into receivership.

A misunderstanding of what constituted good marketing was also a large factor in Boo’s demise. Abel Harpen of Texas Pacific, one of Boo’s investment contacts, said Boo had only two assets, ‘brand and back-end logistics’ (Malmsten et al. 2001). Boo’s brand strength was no accident. Kajsa and her team went to great lengths to ensure that Boo built an extremely strong brand in only six months as a result of a dedicated and creative promotional campaign. External promotion was also complemented by Boom, the online fashion magazine which they hoped would transform Boo into a ‘lifestyle choice’ rather than just a place to shop.

Brand image was so important that the smallest detail was considered even if it was costly. Boo’s rationale for its average monthly spending of $10 million was that the expenditure was necessary to create a multi-national company with the strongest brand. For example, Boo paid for the world’s most famous hair-stylist, Eugene Souleman to sit with a graphics designer for a day and design the hairstyle of the site’s virtual hostess Miss Boo. This seems like an expensive extravagance that served no purpose, especially because the hairstyle was changed at a later date….

One of the most important aspects of marketing for a new business is market research. Boo’s founders felt that such ‘old economy’ rules no longer applied, but research might actually have prevented one of
Boo’s biggest mistakes, which was to overestimate the technical capabilities of its potential customers. The site was so technically advanced that to view the graphics customers had to use special software (plugins). Not being able to view the site gave many potential customers a rational reason not to revisit it. The founders believed that after six months of trading they would have a loyal customer base of 50,000. This figure had no validity and seemed to have been plucked from thin air. Boo also relied on groundless estimates of the amount of supplier discounts that could be obtained, which impacted adversely on pricing policy.

Boo was a good concept, but the project was too ambitious because the market, systems and customers were not sophisticated enough to maximise the potential of the technology. The strategy may have been more successful if they had started small, building the brand more slowly over time. The virtual magazine Boom, the virtual shop assistant Miss Boo and the 3D imaging should have been introduced gradually as the site developed a loyal customer base. If Boo is compared with successful fashion websites there are many differences. For example, Zoom.com has managed to survive due to its unique positioning and a strong strategy. The site is trendy yet accessible and manages to combine simple navigation and shopping processes with desirable products. Lessons about tight budgeting, gradual development in a climate of uncertainty and substantial customer research can also be learnt from traditional retailers’ commercial sites such as Next.com and Debenhams.com.

It can also be argued that Boo’s experienced investors and contractors could have helped control the company rather than watch it head rapidly towards destruction. Unfortunately, in line with the spirit of the times, the venture capitalists concentrated on getting a high valuation for a company that was no more than a creative concept, with the hope of selling it on at a huge profit. Therefore, they were concerned with short-term profit rather than long-term success.

Under new management Boo became a content-only site used as an advertising platform for established fashion brand home sites. Fashionmall.com bought the Boo brand and has sold its assets (state of the art technology in which millions was invested) for just £250,000.
Summary

This broad-ranging chapter has set the scene for more detailed discussion of specific topics later on in the book. You should now have an appreciation of where the Internet has come from, understand how its scope as a business tool has evolved over the past 10–12 years and also be aware of the ‘bigger picture’ within which e-marketing takes place. These environmental issues will be considered in more detail in Chapter 2.

It is easy to get carried away about the potential of the Internet, but several problems remain:

- The sheer volume of traffic can cause delays and lock-outs.
- Security breeches by hackers and viruses hit the headlines regularly.
- A large proportion of the world’s population still do not have Internet access.

Questions

Question 1.1

What would you see as a major danger for societies inherent in the varying levels of Internet access in different parts of the world?

Question 1.1 Feedback

Evidence is mounting that the world may be dividing along the lines of the ‘information haves’ and the ‘information have-nots’, meaning that people without Internet access become increasingly disadvantaged and disenfranchised.
**Question 1.2**

Despite the benefits listed in the chapter, why do you think companies might still be reluctant to make full use of an intranet?

**Question 1.2 Feedback**

A cynic might claim that ‘information is power’ and that individuals in possession of certain important information have a vested interest in keeping such data to themselves. Senior management may be reluctant to disclose details of strategy in the belief that it is a mark of status to have access to privileged information. Fortunately, attitudes like this appear to be less common these days because traditional hierarchies of management are being broken down in many firms.

**Question 1.3**

Can you anticipate any problems associated with operating through extranets?

**Question 1.3 Feedback**

The issue of exactly who should be allowed access to data could be problematic. Imagine, for example, a situation where customer e-mail addresses have been collected and each partner company wants to make use of them to implement an e-mail marketing campaign.

**Question 1.4**

What particular benefits does e-commerce offer the business customer?

**Question 1.4 Feedback**

- Lower purchasing overheads
- Greater choice
- Faster fulfilment cycle time
- Greater ability to supply information
- Lower cost than EDI
- Ease of swapping between suppliers
Question 1.5
What particular benefits does e-commerce offer the consumer?

Question 1.5 Feedback
- Demands for increased choice
- Demands for information
- Demands for interactive, online support
- Avoidance of travel and search costs
- 24-hour availability

Question 1.6
Why do you think the ethos of not-for-profit was so important to the uptake of the Internet?

Question 1.6 Feedback
One of the key features of the World Wide Web is that anyone can use the standards developed by the World Wide Web consortium. Tim Berners-Lee (who is credited as the inventor of the web) is adamant that if users had been charged for using the technology developed then it would have never taken off as it did, despite the fact that it could have made him a multi-millionaire!

Question 1.7
One security concern that comes up in the media time and time again is computer viruses. Why do you think viruses cause so much fuss?

Question 1.7 Feedback
Computer viruses can range from displaying an annoying message on your screen to wiping entire computer systems. Clicking on what looks like a harmless e-mail message can lead to hours of recovery efforts, if not irreparable damage. One recent example is the ‘Mydoom’ worm. It is estimated that this worm infected approximately a quarter-million computers in a single day. In March 1999, the ‘Melissa’ virus was so powerful that it forced Microsoft as well as a number of other large
companies to turn off their e-mail systems until the virus could be contained.

Feedback on Activities

Activity 1.1
Knowing the number of online users in a particular country is just the starting point. Much more detail is required for a business that is considering whether to develop its online marketing channels; for example, the following questions need to be asked:

- How many of these users can be classified as ‘active’?
- What percentage of users have high speed Internet connections?
- Are users concentrated in a particularly wealthy geographic region; for example the South East of England?
- What is the percentage breakdown of Internet access channels used by the population (PC-based, mobile, digital television)?

Activity 1.2
Some of Nielsen’s ‘best practice’ rules include:

- Encouraging employees to self-publish content
- Keeping the intranet up-to-date
- Supporting factory-floor employees
- Collaborating with clients through an extranet
- Customer relationship management
- Consistent navigation
- Multilingual intranets; supporting international employees
- Online video; executive communications
- Collaboration tools and discussion boards
- E-learning features on intranets
- Intranet as driver for corporate culture and to promote corporate values
- Intranet search
- Development process for intranet redesigns
• Promoting intranet launches; campaigns to encourage use of new features
• Staffing of intranet teams; where they report in the organization
• Updating and maintaining standards and guidelines for intranet design.

Activity 1.3
The problem with HTML is that the language is all about how information is presented on the screen. All the instructions (‘tags’) are set out by the World Wide Web consortium (www.w3.org). XML on the other hand is a much more flexible language. Anyone can define what the tags mean. This allows for a much greater flexibility when it comes to data exchange. Thus companies wishing to exchange data do not have to rely on alternative standards (such as EDI) when they can simply agree on an XML format between them. For example XML is used in the ‘Open eBook’ standard which allows publishers to use this common format to place texts online.

Activity 1.4
Other examples include the government; for example:

• G2C—Government-to-Citizen or Customer: this would include payment of taxes, for example.
• G2B—Government-to-Business: although this becomes very similar to B2B in some cases.

Activity 1.5
There are many examples of this kind of product review available. The computer components company e-buyer (www.ebuyer.com), for example, allows customers to review all its productions with a rating and a comment. The Internet Movie Database (uk.imdb.com), for example, relies heavily on user reviews to keep its site up-to-date. More generally, sites such as Wikipedia, My Space and YouTube are maintained entirely with user generated content. Interestingly, Amazon did not initially allow customer reviews of its products; this was left to an editorial department. However, as the number of books available from
Amazon increased, it become impossible for the staff to give all books a review and they therefore allowed customers to review books as well. Eventually, only the user reviews remained.

*Activity 1.6*

Obviously, it is impossible to accurately predict what would happen with the current higher speed Internet connections. However, it is important to note that companies are still making similar mistakes by offering highly graphical or flash sites with no alternative to those Internet users who either have slower connections or lack the software to run such sites. Indeed, while broadband is becoming both faster and more popular in the UK, many Internet users still use a dial-up connection. Net-savvy companies are now offering both high and low speed alternatives so as not to put off any potential customers (e.g. www.bbc.co.uk).

**Web Links**

www.clickz.com  
Latest statistics of worldwide Internet growth  
www.durlacher.co.uk  
Quarterly research reports on Internet usage from a UK perspective  
www.intranetroadmap.com  
Useful student resource with definitions, links and examples  
www.ebusinessroadmap.org  
Useful student resource with definitions, links and examples  
www.whatis.com  
Directory of Internet terminology  
www.whatis.com/tour.htm  
An introduction to how the internet works  
www.butlergroup.co.uk  
Reports on latest developments in electronic commerce from a UK perspective  
www.kpmg.co.uk  
Produces regular free reports on the latest trends in e-commerce  
www.startups.co.uk  
Allows subscription to a new monthly paper-based magazine containing up to date case studies and updates on latest trends  
www.w3.org  
An organisation responsible for defining worldwide standards for the Internet
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